



*affordable
permanent
supportive
housing*

September 26, 2007

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MSHDA-Legal

Ms. Mary P. Levine
Acting General Counsel/Director of Legal Affairs
Michigan State Housing Development Authority
P.O. Box 30044
Lansing, MI 48909

RE: PROPOSED MSHDA LIHTC QUALIFIED ALLOCATION PLAN 2008-2009

Dear Ms. Levine:

I am writing this letter on behalf of Genesis Non-Profit Housing Corporation to comment on MSHDA's recent draft LIHTC Qualified Allocation Plan for 2008-2009. I am unable to make any of the three scheduled Public Hearing dates and wish to respond via letter.

First, let me congratulate you and the MSHDA Executive Director, Mr. Michael DeVos, for your vision in developing a QAP that implements many of the components of MSHDA's Five Year Affordable Housing Community Action Plan. Of particular significance is MSHDA's effort to address the housing needs of our state's extremely low income, chronically homeless and homeless families and individuals as well as persons in this category with disabilities. I appreciate MSHDA's acknowledgement of the need to dedicate funding toward development of several Affordable Assisted Living Initiative projects. We are an agency that has successfully developed four affordable permanent supportive housing settings for extremely low income homeless individuals and families with disabilities, as well as the first Affordable Assisted Living project, and find the opportunity to continue Genesis' efforts for further development through this QAP rewarding and exciting.

There are three aspects, however, of the proposed QAP that I wish to address and request consideration for modification. These are threshold requirements that seem to contradict the above positive aspects of the Plan and, in fact, will tend to inhibit Affordable Housing developers in their ability to help MSHDA achieve its desired goals. There are at least three I feel are a problem:

1. The requirement outlined in Paragraph 2 of the threshold requirements requiring a commitment to pay prevailing wage on all projects.

While I applaud MSHDA's statement that numerous individuals and families in the state are not provided a living wage, I don't think forcing affordable housing developers to pay prevailing wage is going to be the answer. The answer to that problem requires a much larger societal switch and is beyond making a difference with the limited MSHDA dollars available. Forcing developers to pay "prevailing wages" is going to reduce rather than increase the number of affordable housing projects for extremely low income individuals.

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It has been proven that the prevailing wage law in our state significantly drives up the cost of construction. A recent article in the Grand Rapids Press outlined how this forty year old law drives up cost of public construction way beyond what local and state taxpayers can afford. Michigan's prevailing wage law dates to 1965, when unions carried considerable power in the state and represented a substantial portion of the work force. That's not true anymore. So to say that the union wage "prevails" is wrong. Rather, this is a construction premium that MSHDA – and Michigan – should no longer push on private developers. With Michigan struggling for every job and maximizing every tax dollar, MSHDA would be better advised to let the competitive market dictate building costs rather than forcing unnecessary costs on projects.

2. Paragraph 18 of the threshold requirements requires the applicant to submit letters of interest "from at least three equity investors..."

As a developer of extremely low income projects during the past eight years, I think I can speak from experience in saying this requirement will not result in increased allocation of credit for a project or increased objectivity or improved project development. It simply will result in dramatically increased work by the developer without significant value to the project.

Let me explain. During the development of our most recent supportive housing projects I have attempted to obtain quotes from several equity investors. I have done the same with our current Affordable Assisted Living project. But, because of the uniqueness of each of these projects, as well as the designation that the primary focus will be on extremely low income individuals, we have found it extremely difficult to find equity investors who are willing to take on "risky" projects without a substantial lessening of equity offered. We find it is much more important to develop working relationships with an equity investor who is familiar with the type of projects MSHDA is encouraging—benefiting the extremely low income citizens of our state—and work with that investor to maximize equity. As a developer of extremely low-income homeless projects, we will find it increasingly difficult to find equity investors willing to take the risk. In order to find "at least three", we will have to spend considerable time working with an equity investor to get them familiar with the project and getting them comfortable that their equity investment will be successful.

While I applaud the efforts for objectivity and attempt to gain more equity dollars, I don't think this requirement will accomplish that goal. While it appears there are many equity investors who are eager to do projects in Michigan, my experience has been when they hear the "risky" nature of the project and the extremely low income individuals who will be occupying the sites, they tend to shy away and are not eager to participate. I have found it much more beneficial to develop a relationship with a single equity investor and work hard at developing this relationship so there is some common understanding going into the project and both parties have a commitment to see it work rather than simply finding the maximum equity investment, and forcing a developer with a risky project to perform on their own. I think this requirement will inhibit our efforts rather than assist them.



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3. Paragraph 20 of the threshold requirements indicates MSHDA will require an extended use commitment of 90 years.

I'm not sure what the rationale is for this dramatic increase in extended use commitments from its present 30-50 years. I think this requirement will cause developers to spend less time—rather than more—in planning the long-term future of their projects. The current 50 years commitment period is actually so far in the future, that many developers tend to ignore that far-out date, and concentrate only on the first 15 or 20-year period, and figure their successors will deal with whatever comes in the longer term future. Pushing the commitment an additional 40 to 50 years will simply cause developers to spend even less time about the future—which will most likely be at least two generations beyond the present development—and concentrate even more on the most immediate 15 to 20 year period.

Over a 90 year span whole communities, cultures, and geographical boundaries change. To make developers commit a project for 90 years seems very unrealistic and, in fact, foolish. By making it that long, no one is going to pay any attention anyway, and it is highly unlikely that what transpires in today's development will even remotely physically last 90 years.

Additionally, the need to commit an extended use of 90 years will require a project to be built with extremely high quality materials and construction techniques. While this is laudable, it will drive up the cost of developments and will reduce the number of developments that could be built with the available dollars.

Thank you for MSHDA's efforts to provide affordable housing opportunities for disadvantaged residents in our state. I am sure you can be assured Genesis will continue to work with you in a partnership role. I hope the above comments will be considered in that context.

Sincerely,



Harold J. Mast
Executive Director

HJM/pjp

Cc: Genesis Board of Directors

